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TENNESSEE

Department of Financial Institutions Eighteenth Annual Report

1991

State Capitol as Photographed from the Legislative Plaza after a Rain
Photographed by Murray Lee, State of Tennessee, Media Production Services

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COMMISSIONERS OF THE DEPARTMENT OF FINANCIAL INSTITUTIONS

Name	Service
J. L. Hutton	January 1914 - August 1914
J. Luther Emerson	September 1914 - November 1917
S. S. McConnell	May 1918 - May 1927
H. L. Grigsby	November 1927 - November 1929
D. D. Robertson	May 1930 - November 1937
Homer Clark	January 1938 - March 1958
Marvin A. Bryan	April 1958 - December 1972
Hugh F. Sinclair	January 1973 - January 1975
Joe Hemphill	January 1975 - January 1979
Thomas C. Mottern	February 1979 - December 1982
W. C. Adams	January 1983 - July 1986
Talmadge B. Gilley	August 1986 - January 1987
Dennis R. Phillips	January 1987 - January 1988
Jeff H. Dyer	February 1988 - January 1990
Talmadge B. Gilley	January 1990 -

COMMISSIONER'S MESSAGE

During 1991, state-chartered financial institutions in Tennessee continued to perform admirably when compared to their federally-chartered counterparts, especially in light of the economic recession and significant changes encountered by the financial industry nationwide.

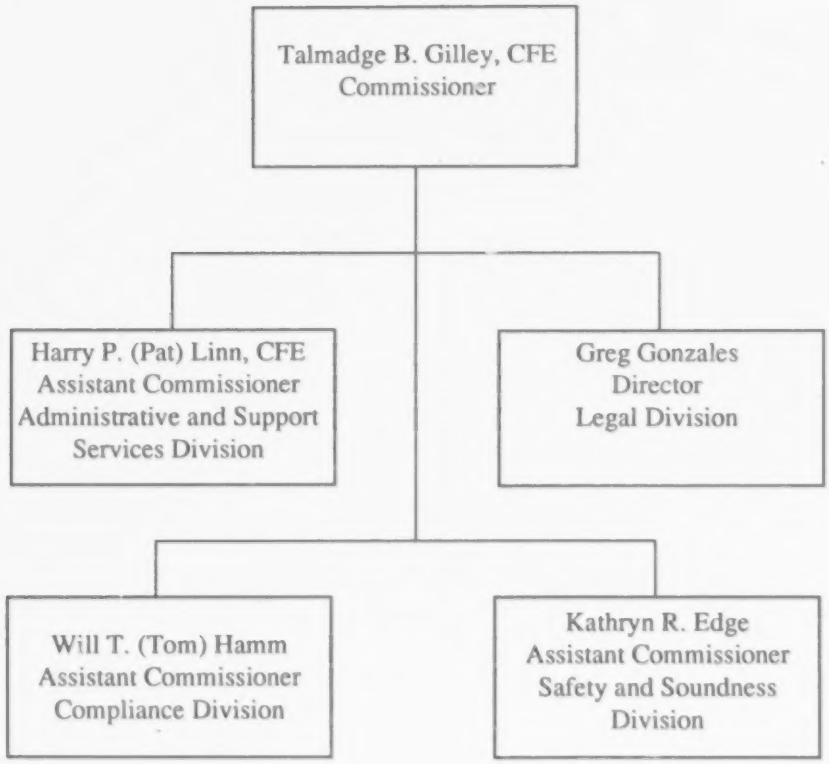
The Department remains a strong advocate of the dual chartering system through our support of the Conference of State Bank Supervisors, by our messages to Tennessee's Congressional delegation, and through Governor McWherter's vigorous support.

We have been outspoken proponents of the restructuring of the federal bankruptcy laws to assure equity for honest, conscientious lenders while maintaining the original intent of the debt restructuring statutes. We must fight to eliminate fraud and abuse in the system and over-lenient interpretation of the law in order to protect lenders and other creditors. Nationwide, bankruptcies have become a safety and soundness problem for financial institutions.

I am confident that the Department will continue to meet the challenges inherent in our mission as we seek to assist in the provision of a safe and sound system of financial institutions for all Tennesseans.

Talmadge B. Gilley, CFE
Commissioner

DEPARTMENT OF FINANCIAL INSTITUTIONS SENIOR STAFF



DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF

OFFICE OF THE COMMISSIONER
Talmadge B. Gilley, CFE, Commissioner
Alma C. (Tina) Smith, Administrative Assistant
Linda P. Clark, Executive Secretary

ADMINISTRATIVE AND SUPPORT SERVICES DIVISION
Harry P. Linn, CFE, Assistant Commissioner
Carolyn G. Merhar, Personnel Analyst

FISCAL SERVICES SECTION
Sheila P. Street, Administrative Services Assistant
Barbara A. Jones, Administrative Services Assistant
Stefanie D. Milam, Word Processing Operator

INFORMATION SYSTEMS AND EDP EXAMINATION SECTION
William B. Wooten, CISA, CDRP, AFE, CSP, Director
Wanda E. Smith, Manager Computer Operations
Donna J. Warren, CISA, EDP Examiner
Lowell V. Hunt, CE-EDP, EDP Examiner
Jeffery G. Goodwin, EDP Examiner

LEGAL DIVISION
Greg Gonzales, Director

Elizabeth A. Clark, Staff Attorney
Roger W. Thomas, Staff Attorney

Sylvia C. Mitchell, Executive Secretary
Barbara S. Maxwell, Executive Secretary

COMPLIANCE DIVISION
Will T. Hamm, Assistant Commissioner
Edward N. Yager, AFE, Director

Harold K. Borum, Supervisor

Martha G. Agee, Executive Secretary
Jeanette M. Scruggs, Administative Secretary

FIELD STAFF

Chris L. Adams, II
Francis B. Crawford, II
Bobby Hardaway, II

Patrick C. Ryan, II
Gene A. Smith, II

SAFETY AND SOUNDNESS DIVISION
Kathryn R. Edge, Assistant Commissioner
Debra T. Clark, Executive Secretary
Clarence H. Nixon, CBA, Examinations Specialist

FINANCIAL ANALYSIS AND TRAINING SECTION
Curtis F. Faulkner, CFE, Program Administrator
Paula H. Miller, Administrative Secretary
Harry P. Murphy, CFE, Financial Analyst
Kenneth R. Hensley, CFE, Financial Analyst

APPLICATIONS SECTION
Mark C. McDowell, CFE, Program Administrator

"CFE" Certified Financial Examiner; "AFE" Accredited Financial Examiner; "CBA" Certified Bank Auditor; "CISA" Certified Information Systems Auditor; "CPA" Certified Public Accountant; "CSP" Certified Systems Professional; "CDRP" Certified Disaster Recovery Planner; "CE-EDP" Certified Examiner Electronic Data Processing Roman numerals denote field examiner level.

SPECIAL SUPERVISORY SECTION
Marian E. Garland, CFE, Program Administrator

TRUST EXAMINATION SECTION
Vivian Y. Scruggs Lamb, CFE, Program Administrator
Robert R. Neyland, Jr., II

BANK EXAMINATION SECTION
Derek L. Carrier, CFE, Program Administrator
Jean E. Jackson, Administrative Secretary

FIELD STAFF

West Tennessee
R. Douglas Baker, CFE, Manager

Region #1

James R. Halford, CFE, IV
Danny N. Nolen, CFE, IV
Terry G. Warren, CFE, IV
David T. Reynolds, AFE, III
Benjamin L. Horton, AFE, II
Jerry W. Davis, AFE, II
Jayne J. Parrish, AFE, II
Robert E. Shannon, II

Region #2

Jimmy G. Taylor, CFE, Supervisor
Calvin B. Allen, AFE, IV
Vonzille W. McClendon, CFE, IV
Shirley D. Sanderson, CFE, IV
Phillip E. Stafford, AFE, IV
Van A. Davidson, II
Laurie G. Willis, AFE, II

Middle Tennessee
James S. Douthit, CFE, Manager

Region #3

Irving B. Ginsberg, CFE, Supervisor
Stephen R. Eddings, AFE, IV
James G. Franklin, II
Mary W. Hunt, AFE, II
Warren L. Pedigo, II
Patrick B. Ragan, II
Glen E. Rainey, II

Region #4

Harrison C. White, CFE, Supervisor
Teresa R. Averitt, AFE, III
Anthony T. Rice, AFE, III
Marsha C. Dubin, AFE, II
Johnny W. Duncan, II
Winfield D. Howard, II
Michael D. Officer, II
Tim Shanklin, I

Region #5

Joe P. Boaz, CFE, Supervisor
Storm A. Miller, AFE, III
Joyce S. Simmons, CPA, AFE, III
Philip G. Calahan, II
H. Greg Perry, II
Tod K. Trulove, II
Sherri Cassetty, I

East Tennessee
Kenneth Kelley, CFE, Manager

Region #6

Chester Justice, Supervisor
William A. Cave, CFE, IV
Billy W. McCullough, AFE, IV
Teresa D. Weaver, AFE, IV
Carol C. Killen, AFE, III
Alfred M. Hacker, II
Timothy J. Poteet, II

Region #7

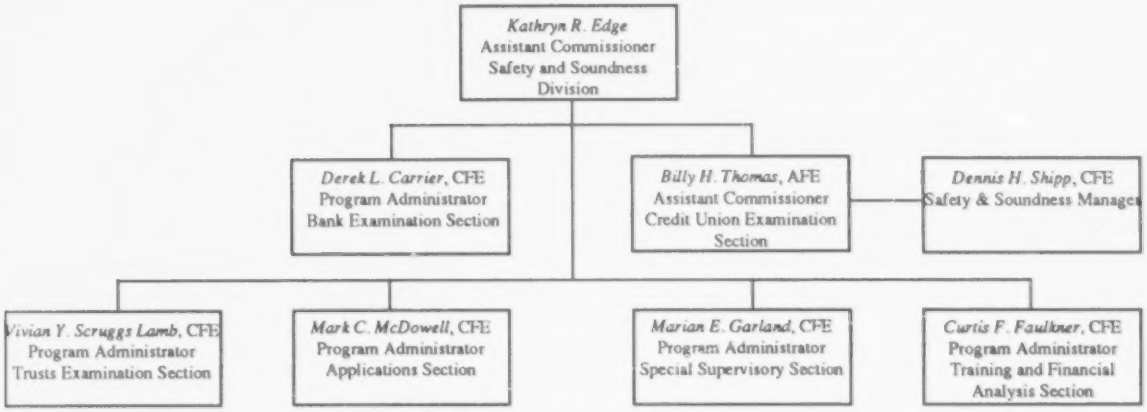
Claude N. Huff, CFE, Supervisor
Louella K. Hensley, CFE, IV
Kenneth R. Roberts, CFE, IV
Robin R. Culbertson, AFE, III
Lance C. Hogelin, III
Jonathan T. Piper, AFE, III
Gregory L. Davis, II
Suzan C. Stewart, II

CREDIT UNION EXAMINATION SECTION
Billy H. Thomas, AFE, Assistant Commissioner
Dennis H. Shipp, CFE, Manager
Shirley F. Gilley, Executive Secretary
Linda H. Vetitoe, Secretary

FIELD STAFF

Frank G. Bale, CFE, V
John R. Shires, CFE, V
Robin D. Conway, AFE, IV
Paul L. Foster, CFE, IV
Randall D. Means, CFE, IV
Bill K. Reed, CFE, IV
Eric D. Batts, AFE, III
Thomas S. Harper, AFE, III
Vickie L. Young, AFE, III
David N. Bobo, II
Arnold R. Spruill, II
Marie W. Brandt, I

SAFETY AND SOUNDNESS DIVISION



The Safety and Soundness Division is charged with the regulation, examination and supervision of state-chartered commercial banks, credit unions, savings and loan associations, savings banks, business and industrial development corporations, and trust companies.

Six sections, headed by program administrators, perform the duties necessary for the effective regulation of these financial institutions:

- **Bank Examination Section**
- **Credit Union Examination Section**
- **Trusts Examination Section**
- **Applications Section**
- **Special Supervisory Section**
- **Training and Financial Analysis Section.**

BANK EXAMINATION SECTION

Derek L. Carrier, CFE, administers the Bank Examination Section which employs 56 financial institutions examiners across the State. The Section is divided into three divisions, corresponding generally to the Three Grand Divisions of Tennessee with each region headed by a Financial Institutions Safety and Soundness Manager. Veteran examiners **R. Douglas Baker, CFE, James S. Douthit, CFE, and Kenneth Kelley, CFE,** head the West, Middle and East divisions, respectively. They are supported by six Financial Institutions Safety and Soundness Supervisors who have direct supervisory authority over financial institutions examiners charged primarily with examining commercial banks.

The Bank Examination Section monitors the safety and soundness of each state bank and the one remaining state-chartered savings and loan association through the process of on-site visitation and examination and off-site monitoring. Examiners meet with boards of directors and management of the institutions to offer guidance and explain examination findings.

Since the Bank Examination Section utilizes the FDIC's examination report format and because of our close working relationship with the FDIC, the decision was made in 1991 to adopt the FDIC's automated report of examination (ARE) work program.

The program is a computer-based system used by examiners to facilitate the preparation of examination reports. It consists of two major sections: 1) a proprietary, stand-alone program written in "C" language specifically for the FDIC and other regulatory agencies, and 2) a word processing program. The C-language program (C-ARE) is used to prepare the financial data pages of the examination report, while the word processing program is used to complete those pages which are text oriented.

The C-ARE program may be used in three different ways to prepare a report of examination:

1) Manual - All data is entered from the computer keyboard.

2) Download, Full* - Downloaded data is used to complete portions of the examination report.

3) Download, Historical* - Downloaded data is used to complete portions of the examination report. Schedules that are to contain the latest, up-to-date financial information need to be completed manually.

*These features enable users to transfer information (download) from some FDIC mainframe computer databases to microcomputers by way of a communications software package, telephone lines, and a modem.

Implementation of the program began in August 1991 and was completed by mid-October 1991.

The Bank Examination Section is primarily supported by **Administrative Secretary Jean E. Jackson**.

CREDIT UNION EXAMINATION SECTION

Assistant Commissioner Billy H. Thomas, AFE, manages the Credit Union Examination Section with the assistance of Financial Institutions Safety and Soundness Manager **Dennis H. Shipp, CFE**. During 1991 thirteen credit union examiners examined state-chartered credit unions for safety and soundness and compliance with governing laws and regulations. Like their counterparts in the Bank Examination Section, credit union examiners perform on-site examinations and offer guidance to credit union management.

The Credit Union Examination Section is supported by **Executive Secretary Shirley F. Gilley and Secretary Linda H. Vetitoe**.

TRUSTS EXAMINATION SECTION

Vivian Y. Scruggs Lamb, CFE, administers the Trusts Examination Section, and with the assistance of **Examiner Robert R. Neyland, Jr.**, examines the trust departments of state banks, as well as five state-chartered trust companies. Examinations of large institutions are often coordinated with the Federal Deposit Insurance Corporation or the Federal Reserve System in order to make the best use of available resources and provide the most comprehensive examination possible. Both Ms. Lamb and Mr. Neyland have state-wide examining authority.

The Section is supported by **Administrative Secretaries Jean E. Jackson and Paula H. Bell Miller**.

SPECIAL SUPERVISORY SECTION

Marian E. Garland, CFE, monitors the progress of state banks which have received a CAMEL rating of "3", "4", or "5" at either a state or federal examination. As Program Administrator of the Special Supervisory Section, Ms. Garland is responsible for the supervision of these "watch list" institutions and assists the Legal Division in the preparation of administrative enforcement actions. Ms. Garland frequently attends meetings of the boards of directors of troubled institutions, representing the Commissioner in the complex effort to restore these institutions to a sound condition. No state-chartered bank has failed in Tennessee since 1986.

The Special Supervisory Section is supported by **Administrative Secretary Paula H. Bell Miller**.

APPLICATIONS SECTION

Program Administrator Mark C. McDowell, CFE, heads the Applications Section. The section is responsible for the review and analysis of all applications made to the department for new banks, credit unions, trust companies, savings and loan associations, savings banks, and BIDCOs. In addition, Mr. McDowell analyzes all applications for mergers, acquisitions, branches, securities and related powers, and both inter- and intra-state acquisitions and consolidations.

The application process often includes on-site visitations and investigation, consultations with management, attorneys, accountants, and other parties, as well as in-house analysis of the financial information provided by the applicant. The goal of the section is to identify any initial concerns which may forewarn significant problems. Particular attention is paid to the quality and expertise of management and to the level of capital protection afforded by the institution.

Legal review of applications is conducted by **Assistant Commissioner Kathryn Reed Edge**. The Section is supported by **Executive Secretary Debra T. Clark**, who also serves as special assistant to the assistant commissioner.

TRAINING AND FINANCIAL ANALYSIS

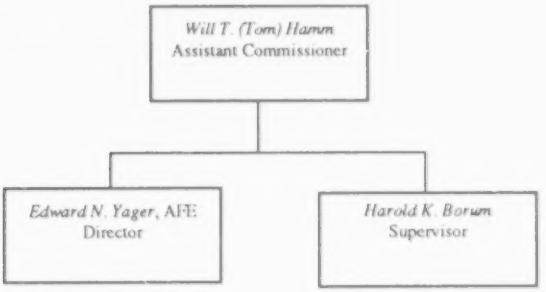
Program Administrator Curtis F. Faulkner, CFE, heads the Training and Financial Analysis Section which serves two major functions: the training of financial institutions examiners and other division personnel; and the review and analysis of bank examination reports of examination. Mr. Faulkner is primarily responsible for training. **Financial Analysts Harry P. (Pat) Murphy, CFE, and Kenneth R. Hensley, CFE**, work in the review function but also provide other analytical and training assistance division-wide.

Analysts work closely with the program administrator for the Bank Examination Section to produce a product as nearly error-free as possible. Efforts made during 1991 to expedite the review process and to provide reports of examination to banks as soon as possible after the examination have been successful.

Training during 1991 has been a division priority in order to educate new examiners as quickly as possible. While budgetary constraints have made a stepped-up training program difficult, Mr. Faulkner has sought to provide as much in-house training as possible, often soliciting and obtaining training assistance from lawyers, accountants, and other professionals to supplement training provided by the Conference of State Bank Supervisors and the several federal banking regulatory agencies.

Paula H. Bell Miller, Administrative Secretary, supports the section.

COMPLIANCE DIVISION



The Division is in charge of the licensing, regulation and supervision of Industrial Loan and Thrift (630), Mortgage (183), Money Order Issuers (42) and Premium Finance Companies (70).

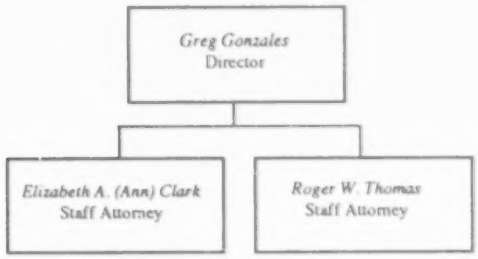
Unlike the supervision of banks where the regulator is concerned with the interest of depositors, stockholders and the public, the Commissioner's responsibility in administering the Consumer Finance Act is to the borrowing public. A strong program of supervision and regulation helps ensure that this responsibility is met. This program includes on-site examinations as well as administrative assistance and support to ensure that consumer finance licensees do not make unauthorized charges and that other statutory requirements are met. This office also answers consumer inquiries and complaints.

In addition to the above duties, the Division has been heavily involved with "scam" or so called up-front fee operations of unlicensed lenders using 1 + 800 and 1 + 900 numbers to solicit fees from $49 to $300 for loans never made. With the help of the Attorney General's Office and assistance from other state agencies, as well as cooperation from other states involved, we have managed to close a number of these operations, as well as slowing down the use of 1 + 800 and 1 + 900 numbers with the help and cooperation of newspapers throughout the state in checking with this Division as to these scam operators lack of license to do business.

With regard to the regulation of money order issuers, this department has 42 licensed issuers with 4,026 agents operating in Tennessee. These licensees represent operations ranging from the local neighborhood pharmacist or grocer to large international corporations. In conjunction with the Money Transmitter Regulator's Association, the department is engaging in the joint examination of those corporations that are domiciled outside of Tennessee. The department periodically reviews the operations of Tennessee based licensees as well.

The Money Transmitter Regulator's Association is an organization of state money transmitter regulators that have recognized that effective regulation of corporations doing business throughout the country calls for cooperation among the various states. The department's general counsel, Greg Gonzales, was elected to MTRA's Board of Directors in 1991. Mr. Gonzales also chaired a national committee of state regulators which drafted a model legislation outline that MTRA has offered to all state regulators as a possible guide for future legislative efforts.

LEGAL DIVISION



The Legal Division, under its Director and two Staff Attorneys, serves as legal counsel to the Commissioner and the various divisions of the department. The Division is supported by two Administrative Assistants.

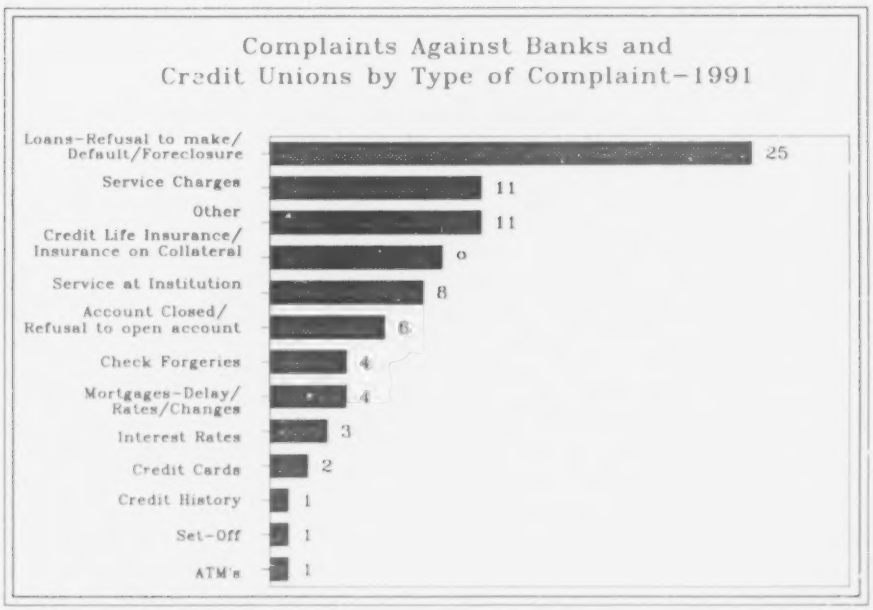
The Division's three attorneys draft internal memoranda; issue informal and formal opinion letters on legal issues involving state-chartered financial institutions; draft and analyze proposed legislation; assist in the tracking of legislation in the General Assembly; review applications for money transmitter licenses; edit the compilation of laws and regulations published by the department; draft and track regulations through the administrative promulgation process; represent the Commissioner in any proceeding brought under the Uniform Administrative Procedures Act (UAPA); direct the maintenance of departmental records; process consumer inquiries; assist law enforcement agencies in certain criminal matters; present seminars to examiners and provide other related services.

The Legal Division was involved in numerous administrative actions in 1991 at the request of the Commissioner. These actions involved state banks, industrial loan and thrift companies, mortgage companies, credit unions, money order issuers and trust companies. A number of these actions involved cease & desist orders. In two of these actions the Compliance Division successfully revoked the certificates of registration issued to companies under the Industrial Loan & Thrift Companies Act. However, in the most recent case, the respondents have filed an appeal. The Division is currently working on the appeal of that case.

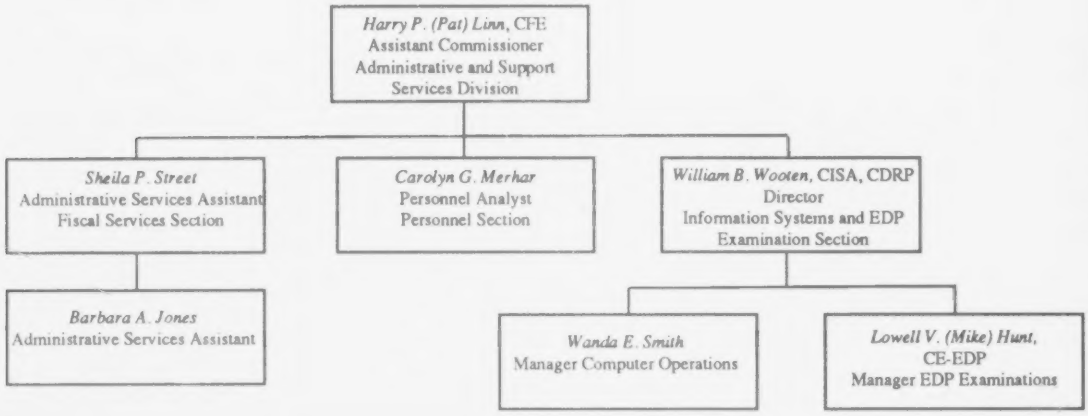
Aside from UAPA hearings, the Division has worked closely with the Compliance Division, the office of the Tennessee Attorney General, and other state and federal agencies across the nation to address the nationwide problems of advanced loan fee scams.

In 1991, the Legal Division assisted consumers in the answering of numerous inquiries concerning state-chartered banks and credit unions. The Division received approximately 189 phone inquiries on state-chartered institutions. Of these inquiries, 86 resulted in written complaints reviewed by the Division and forwarded to the regulated institution for response in an attempt to achieve a resolution. The most common categories of inquiries involved the loan process, service charges, insurance, and the relationship between institutions and their customers. For a more detailed listing of the 14 major categories of inquiries received by the department, please refer to the accompanying bar graph.

The Legal Division directs the department's retention and maintenance of departmental records. Among other things, the designated Records Officer assists with the preparation of the Annual Records Holding Report, responds to subpoenas for departmental records, and directs document productions. A review of all departmental Records Disposition Authorization numbers is scheduled for 1992.



ADMINISTRATIVE AND SUPPORT SERVICES DIVISION



PERSONNEL/FISCAL SERVICES

The Department of Financial Institutions is a self-funded agency that is entirely supported by fees paid by State Chartered Financial Institutions, which are regulated by the Department.

The Department operated in 1991 with 120 positions. Three positions assigned to the Nashville Office were kept vacant throughout the year in order to help reduce expenses and comply with requests from the State Department of Personnel and the Department of Finance and Administration. Seven field examiners resigned in 1991 and the Department was authorized to fill these critical positions during a hiring freeze which affected overall state government.

There were no cost-of-living salary increases for state government employees in FY 91-92. However, the Department was allowed to promote field examiners and continue giving a 1-step increase when examiners obtained the Accredited Financial Examiner (AFE) or Certified Financial Examiner (CFE) designations.

Located on page 28 is the Report of Revenue and Expenditures of the Department of Financial Institutions. As you will note, the two largest expenditures are salaries and travel reimbursement. These two items account for nearly 83% of all our expenditures.

DEPARTMENT AUTOMATION

Due to the State's budget constraints in 1991, development of new computer programs was curtailed. The Department, in order to move forward in meeting its automation needs, adopted the examination work programs and computer software used by Federal Regulators. The Federal Deposit Insurance Corporation's Automated Report of Examination (ARE) package and the National Credit Union Administration's Automated Credit Union Examination System (ACES) were both implemented in 1991.

In addition to new software, the Credit Union examiners received new lap-top computers, printers and training from the NCUA at no cost to the State.

Developed in-house in 1991 were two automated applications that run on the Department's System 36 computer. An automated progress report system was developed in order to assist the Special Supervisory Section in monitoring banks rated 3, 4, or 5. A criminal referral system was developed in order to assist the Legal Division in maintaining information on employees of State Chartered Financial Institutions involved in defalcation.

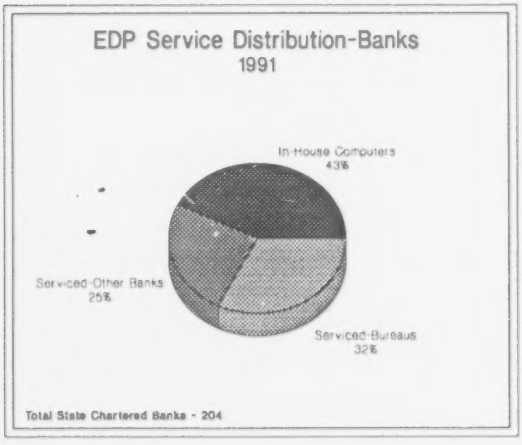
Desktop publishing is starting to play a greater roll in the Department's automation efforts. This annual report was completed on the Department's desktop publishing system and sent to the printer camera ready at a considerable savings.

EDP EXAMINATIONS

State Chartered Banks in Tennessee receive their Data Processing through one (or a combination) of three sources:

1) in-house computers
2) serviced by other Bank(s)
3) serviced by independent service bureau(s)

Of the 204 State Chartered Banks in Tennessee, 87 have in-house computers, 51 are serviced by other Banks, and 66 are serviced by independent service bureaus.



During 1991, there were a total of 64 bank related EDP examinations performed utilizing the Federal Financial Institutions Examination work program. Fifty-five examinations were conducted at Banks that have in-house computers; two examinations were conducted at Banks that provide data processing services to other Banks; three examinations were conducted at independent service bureaus; and four EDP examinations were joint with the FDIC.

In addition to bank related EDP examinations, 34 examinations were conducted at State Chartered Credit Unions that have in-house computers.

The Department's four EDP examiners are specialized in their area of expertise and conduct EDP examinations independently or jointly with other financial institutions regulatory agencies. As part of our ongoing process to improve EDP examining, we now have two Certified Information Systems Auditors (CISA), one of which is also a Certified Disaster Recovery Planner (CDRP).

INDUSTRY DEVELOPMENTS

BANKING

CHANGES IN NUMBERS

Number of State Banks

The number of state-chartered banks headquartered in Tennessee declined by five in 1991, continuing the trend which has been evident in recent years. Again, as was the case in 1990, consolidation within the industry was the primary cause of the decline. At the end of 1991, the Department of Financial Institutions regulated and supervised a total of 204 banks compared to 209 for the preceding year. Despite the overall decline, three (3) new banks were chartered by the Department - two (2) de novo banks and one savings and loan conversion.

Problem Banks

On December 31, 1991, there were 51 state-chartered problem banks (CAMEL 3,4,and 5) compared to 37 one year earlier. As a percentage of all state-chartered banks, these numbers represent 24.4% for 1991 and 17.7% for 1990. Over the past year, the 38% increase was most prevalent in the Middle and West Tennessee Regions while a general decline was evidenced in the East Tennessee Region. Most of the deterioration which has occurred, results from the downgrading of CAMEL 2 rated banks.

TABLE I

STATE-CHARTERED BANKS IN TENNESSEE 1991

Number of Banks	204
Total assets (billions)	21.7
Average asset size (millions)	$106.0

BANK PERFORMANCE

While the overall condition of state-chartered banks in Tennessee remains healthy and strong, a slowing of activity among these banks was evident during 1991. Most balance sheet accounts decreased in dollar amount with the exception of investment securities and other real estate owned.

Of the 204 state-chartered banks, 184, or 90%, were profitable in 1991. Aggregate net income for 1991 amounted to $170 million for a return on average assets of .80%. These figures compare to net income of $132 million for 1990 and a return on average assets of .60%. Gains from the sale of investment securities and reduced loan loss provisions were the major factors leading to the improvement in earnings.

Total assets of all state-chartered banks declined 2%, falling from $22.2 billion to $21.7 billion. Loan activity also experienced a decline in 1991, dropping 4.5% from $13.2 billion to $12.6 billion. Most of the shrinkage in the banks' loan portfolios were concentrated in consumer and commercial and industrial loans. Loans secured by real estate showed a modest 2% increase, going from $6.2 billion at the end of 1990 to $6.4 billion at the end of 1991. Decreases in construction loans were offset by increases in residential real estate loans.

Asset quality problems among state-chartered banks showed signs of moderating somewhat as nonperforming loans fell by $8 million. However, this decline was offset by a $9 million increase in other real estate owned. On December 31, 1991, nonperforming assets, comprised of nonaccrual loans, delinquent loans 90-days and over and still accruing interest, and foreclosed real estate totaled $316 million or 1.46% of total assets and 2.49% of total loans and foreclosed real estate. For 1990, the respective ratios were 1.42% and 2.37%. Total past due and nonaccrual loans as a percentage of gross loans was 3.67% compared to 3.90% one year earlier. As of year end, aggregate loan loss reserves equalled 95% of nonperforming loans and 1.58% of total loans and leases. Net loan charge offs were 1.11% of average total loans in 1991 as compared to .97% in 1990.

Total Equity Capital fell by 3% from $1.8 billion on December 31, 1990, to $1.7 billion on December 31, 1991. Although a negative trend is evident, the average Tier I Leverage Capital Ratio remained at a strong 8.01%, unchanged from that which was reported one year earlier.

TABLE II

PERFORMANCE MEASURES OF TENNESSEE STATE-CHARTERED BANKS, 1991

Return on average assets	.80%
Return on equity	9.87%
Nonperforming assets to total assets	1.46%
Tier 1 Leverage Capital	8.01%

CREDIT UNIONS

State-chartered credit unions continued strong financial trends for the fourth consecutive year. Total assets increased by more than 5.6%, and capital ratios improved by 7%.

TABLE III

STATE-CHARTERED CREDIT UNIONS IN TENNESSEE 1991*	
Number of Credit Unions	209
Total assets (billions)	2.5
Average assets (millions)	12.0
*Does not include Volunteer Corporate and Mutual Guaranty Corporation	

On average, state-chartered credit unions experienced a return on assets of .98%. Capital ratios, a primary measure of safety, also continued to improve with an average capital-to-assets ratio of 9%.

Despite the strong growth in assets and capital, Tennessee state-chartered credit unions' lending activity decreased approximately 5 percentage points. In large part, this reflects the caution of consumers, who have cut back sharply in their spending, especially for major purchases such as autos and homes.

The number of credit unions operating in the state fell by 11 during 1991. This continues a trend toward fewer, but larger, units. Ten of these merged and liquidated. As compared with five years ago, the number of state-chartered credit unions in Tennessee has declined from 280 to 211, while the average total assets have increased to $14.2 million.

State-chartered credit unions are smaller and more numerous than their federal counterparts.

At the end of 1990, 189 state-chartered credit unions were privately insured by Mutual Guaranty Corporation, as compared to 31 state-chartered federally insured institutions. By year end 1991, the number of state-chartered credit unions insured by the National Credit Union Share Insurance fund had risen to 60, with 149 maintaining private share insurance.

TABLE IV

PERFORMANCE MEASURES OF TENNESSEE STATE-CHARTERED CREDIT UNIONS, 1991*

Return on assets	.98%
Return on equity	10.80%
Operating expenses to total assets	3.60%
Equity to assets	9.00%

*Does not include Volunteer Corporate and Mutual Guaranty Corporation

SYNOPSIS OF 1991 LEGISLATION

Public Chapter 235 amends T.C.A. §45-2-1603 and §45-2-1717 to allow the Commissioner of Financial Institutions to share confidential examination information with the Tennessee Bureau of Investigation, the Attorney General and Reporter, and with regard to violations of state or federal securities laws, to the Securities Division of the Department of Commerce and Insurance.

Public Chapter 242 amends T.C.A. §45-12-103 to allow the acquisition of a trust department or trust operations of a Tennessee bank that has been in existence and operating continuously for more than five (5) years.

Public Chapter 386 amends T.C.A. §35-3-117 to authorize a bank or trust company to invest trust funds held in a fiduciary capacity in mutual funds for which the bank or trust company may act as an investment advisor. This bill resulted from a recent OCC interpretative letter which stated that these types of investments would be invalid in the absence of specific state authorization. This Act provides the necessary authorization.

Public Chapter 136 amends T.C.A. §45-2-708 to increase from $2500 to $3500 the amount which a bank may release from a customer's account or safe deposit box to a designated representative in the absence of a qualified executor or administrator.

Public Chapter 51 amends T.C.A. §45-2-704 to permit the payable on death account feature to be used on joint accounts. Prior to this act only individual accounts were permitted to use the payable on death feature. Under the act, only one beneficiary may be named under the payable on death provision.

Public Chapter 118 permits credit unions to use payable on death accounts and informal "totten" trust accounts. It also authorizes credit unions to recognize powers of attorney to access a share account.

Public Chapter 18 clarifies that industrial loan and thrift companies may make loans under general usury statutes, as well as under the Industrial Loan and Thrift Act.

Public Chapter 366 amends Title 62, Chapter 39 by making extensive revisions to the Real Estate Appraisers Licensing and Certification Act. These changes were necessary to bring Tennessee law into conformance with federal guidelines mandated by FIRREA.

Public Chapter 33 amends Title 45, Chapter 11 to authorize a bank or savings and loan association to convert to a state-chartered savings bank.

Public Chapter 177 authorizes the chartering of state savings banks. Such institutions may, subject to regulation by the Commissioner of Financial Institutions, issue demand deposit accounts, NOW accounts, and interest bearing accounts; issue credit cards and have credit card operations; branch on the same basis as savings institutions; and exercise trust powers on the same basis as commercial banks, trust companies or other corporations authorized to conduct trust business. Other significant portions of this Act include provisions which allow state-chartered banks to exercise any power or any investment authorized to savings banks, require that savings banks maintain the same capital as that required of commercial banks, and subject savings banks to the same loan limitations placed on commercial banks.

STATEMENT OF CONDITION
TENNESSEE STATE BANKS
(in $ millions)

	1990	1991
ASSETS		
Cash and Due from Banks	1,558	1,534
Securities	5,611	5,960
Federal Funds Sold and Repurchase Agreements	1,030	881
Total Loans and Leases	13,192	12,597
Reserve for Loan Losses	(221)	(199)
Assets Held in Trading Accounts	1	1
Premises and Fixed Assets	394	375
Other Real Estate Owned	98	107
Investments in Unconsolidated Subsidiaries	3	5
Customer Liabilities on Acceptances Outstanding	61	21
Intangible Assets	18	17
Other Assets	412	411
Total Assets	**22,157**	**21,710**
LIABILITIES		
Noninterest-Bearing Deposits-Domestic	2,566	2,526
Interest-Bearing Deposits-Domestic	16,434	16,526
Interest-Bearing Deposits-Foreign	210	153
Total Deposits	**19,210**	**19,205**
Federal Funds Purchased and Reverse Repurchase Agreements	750	448
Demand Notes Issued to the U.S. Treasury	46	24
Other Borrowed Money	30	14
Mortgage Indebtedness	27	24
Banks Liability on Acceptances	61	21
Notes and Debentures	5	3
Other Liabilities	255	248
Total Liabilities	**20,384**	**19,987**
EQUITY CAPITAL		
Preferred Stock	11	13
Common Stock	223	216
Surplus	440	455
Undivided Profits and Capital Reserves	1,099	1,039
Total Equity Capital	**1,773**	**1,723**
Total Liabilities and Equity Capital	**22,157**	**21,710**

SUMMARY OF INCOME AND EXPENSES
TENNESSEE STATE BANKS
(in $ millions)

	1990	1991
Interest Income	2,020	1,864
Interest Expense	1,197	1,028
Net Interest Income	**823**	**836**
Non Interest Income	194	188
Overhead Expense	673	677
Provision for Loan Losses	178	137
Securities Gain/Losses	(2)	23
Pre Tax Net Income	164	233
Applicable Income Tax	34	64
Net Operating Income	**130**	**169**
Extraordinary Gains/Losses	2	1
Net Income	**132**	**170**
Total Cash Dividends	**46**	**102**

STATEMENT OF CONDITION
TENNESSEE STATE CREDIT UNIONS
(in $ thousands)

	1990	1991
ASSETS		
Unsecured Loans	311,420	302,747
New Auto Loans	359,280	351,011
Used Auto Loans	147,433	141,457
First Mortgage Real Estate Loans	375,709	361,682
Other Real Estate Loans	187,326	199,767
Other Member Loans	105,404	102,139
All Other Loans	1,612	402
Allowance for Loan Losses	(13,022)	(13,889)
Cash	43,034	48,651
U.S. Government Securities	49,821	97,851
Federal Agency Securities	149,903	194,024
GSPS, NIFCUS	1,222	3,672
All Other Mutual Funds	29,724	12,573
Corporate Central Credit Union Deposits	315,526	352,015
Commercial Bank Deposits	74,749	112,580
S&L and Mutual Savings Bank Deposits	80,702	78,590
Other Credit Union Deposits	2,736	751
Loans to Other Credit Unions	4	0
NCUA Share Insurance Capital Deposit	5,233	8,291
All Other Investments	26,208	25,145
Allowance for Investment Loss	(707)	(285)
Land and Building	28,828	28,209
Other Real Estate Owned	3,067	2,478
Other Fixed Assets	10,820	10,082
All Other Assets	23,286	20,233
Total Assets	**2,319,318**	**2,440,176**
LIABILITIES		
Promissory Notes	20	90
Reverse Repurchase Agreements	0	0
Other Notes	108	27
Dividends/Interest Payable	13,686	11,920
Accounts Payable and Other Liabilities	13,239	12,054
Share Drafts	130,686	141,942
Regular Shares	780,979	885,436
Money Market Shares	237,238	306,374
Share Certificates	615,669	526,954
IRA, KEOGH Accounts	294,560	304,258
All Other Shares	38,485	42,816
Non-Member Deposits	149	399
Total Liabilities	**2,124,819**	**2,232,270**
RESERVES		
Regular Reserves	105,000	110,336
Other Reserves	33,811	34,477
Undivided Earnings	55,688	63,093
Total Liabilities and Reserves	**2,319,318**	**2,440,176**

NOTE: This statement does not include Volunteer Corporate Credit Union and Mutual Guaranty Corp.

COMPOSITE ANNUAL REPORT OF ALL INDUSTRIAL LOAN AND THRIFT COMPANIES

	1989	1990
Number of Offices included in this report	504	513
Number of Employees in state at year end	2,239	2,278

Regulated Loan Business Profit Percentages

Rate of Return

Average Net Receivables	$1,006,395,033	$1,031,749,567
Net Income	$21,211,866	$19,950,558
Rate of Return	2.11%	1.93%

Analysis of Charges on Loans

Charges Collected and/or Earned	$236,398,336	$248,537,487
Average Monthly Rate Collected	1.96%	2.41%

Analysis of Expense Per Account

Average Number of Accounts Outstanding	383,702	390,631
Total Expenses	$219,651,883	$232,404,154
Average Monthly Expense Per Account	$47.70	$49.58

Statement of Income and Expenses

Total Operating Income	$236,398,336	248,537,487
Total Expenses Before Income Taxes	$206,186,264	$221,118,845
Income Before Income Taxes	$30,217,923	$27,418,642

Other Information

Number of Loans Made During Year	622,379	656,576
Dollar Volume of Loans Made During Year	$842,397,979	$843,039,953
Bad Debts	$27,535,630	$36,555,994
Bad Debts - Number of Accounts	26,666	30,512

COMPOSITE ANNUAL REPORT
INDUSTRIAL LOAN AND THRIFT COMPANIES
UNDER $300

	1989	1990
Number of Offices included in this report	21	23
Number of Employees in state at year end	84	91

Regulated Loan Business Profit Percentages

Rate of Return

Average Net Receivables	$3,519,700	$3,806,117
Net Income	$474,952	$669,650
Rate of Return	13.49%	17.59%

Analysis of Charges on Loans

Charges Collected and/or Earned	$3,490,278	$3,941,665
Average Monthly Rate Collected	8.26%	10.40%

Analysis of Expense Per Account

Average Number of Accounts Outstanding	40,946	42,459
Total Expenses	$3,015,315	$3,245,014
Average Monthly Expense Per Account	$6.14	$6.37

Statement of Income and Expenses

Total Operating Income	$3,490,278	$3,941,665
Total Expenses Before Income Taxes	$2,965,043	$3,181,783
Income Before Income Taxes	$525,234	$759,882

Other Information

Number of Loans Made During Year	307,465	284,229
Dollar Volume of Loans Made During Year	$39,187,288	$30,373,685
Bad Debts	$603,252	$613,144
Bad Debts - Number of Accounts	8,300	7,580

COMPOSITE ANNUAL REPORT
INDUSTRIAL LOAN AND THRIFT COMPANIES
OVER $300

	1989	1990
Number of Offices included in this report	483	490
Number of Employees in state at year end	2,155	2,187

Regulated Loan Business Profit Percentages

Rate of Return

Average Net Receivables	$1,002,875,333	$1,027,943,450
Net Income	$20,736,914	$19,280,908
Rate of Return	2.07%	1.88%

Analysis of Charges on Loans

Charges Collected and/or Earned	$232,908,058	$244,595,822
Average Monthly Rate Collected	1.94%	2.38%

Analysis of Expense Per Account

Average Number of Accounts Outstanding	342,756	348,172
Total Expenses	$216,636,568	$229,159,140
Average Monthly Expense Per Account	$52.67	$54.85

Statement of Income and Expenses

Total Operating Income	$232,908,058	$244,595,822
Total Expenses Before Income Taxes	$203,221,221	$217,937,062
Income Before Income Taxes	$29,692,689	$26,658,760

Other Information

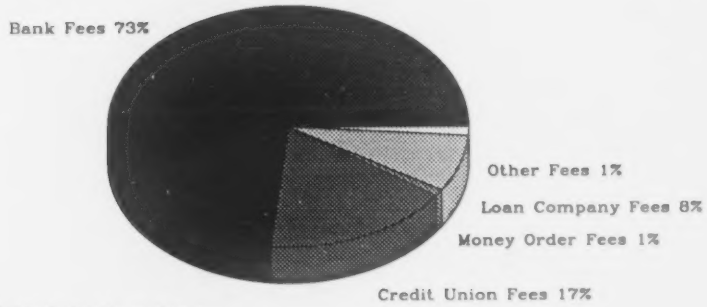
Number of Loans Made During Year	314,914	372,347
Dollar Volume of Loans Made During Year	$803,210,691	$812,666,268
Bad Debts	$26,932,377	$35,942,850
Bad Debts - Number of Accounts	18,366	22,932

EXPENDITURES AND FUNDING SOURCES

TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS

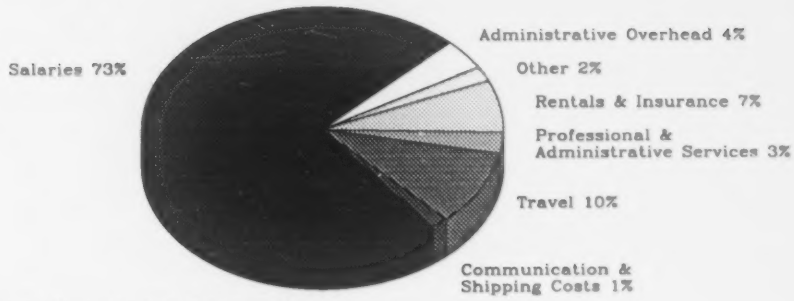
	Fiscal Year 1990-1991
REVENUES	
Bank Fees	$4,153,723.22
Savings & Loan Fees	13,106.72
Credit Union Fees	948,737.29
Money Order Fees	51,634.91
Loan Company Fees	430,375.00
Insurance Premium Finance Company Fees	16,825.00
Mortgage Company Fees	36,300.00
Miscellaneous Fees	5,067.26
TOTAL REVENUES	**$5,655,769.40**
EXPENDITURES	
Personal Services	$3,342,017.72
Employee Benefits	686,833.76
TOTAL PAYROLL	$4,028,851.48
Travel	545,948.92
Printing, Duplication and Film Processing	33,914.74
Utilities and Fuel	0.00
Communication and Shipping Costs	82,166.22
Maintenance, Repairs and Service	9,650.39
Professional and Administrative Services	151,867.52
Supplies	32,554.14
Rentals and Insurance	378,573.56
Awards and Indemnities	405.90
Unclassified Expenses	0.00
Grants and Subsidies (Training)	30,703.43
Equipment	789.00
Administrative Overhead	225,000.00
TOTAL OTHER	$1,491,573.82
TOTAL EXPENDITURES	**$5,520,425.30**
EXCESS OF REVENUES OVER EXPENDITURES	**$135,344.10**

Funding Sources
Department of Financial Institutions



Other Fees include Savings & Loan, Insurance Premium Finance Company, Mortgage Company and Miscellaneous Fees

Expenditures
Department of Financial Institutions



Other Expenditures include Printing and duplication; Maintenance, repairs and service; Supplies; Awards; Training; and Equipment

EMPLOYMENT OPPORTUNITIES

The Tennessee Department of Financial Institutions generally employs five to ten examiners each year and is an Equal Opportunity Employer functioning under an approved affirmative action plan.

The Department currently has a goal to increase employment of women and minorities in its examiner job groups.

If you would like more information about how to apply for these jobs, please complete and return the form below.

SEND TO:

Affirmative Action Officer
Tennessee Department of Financial Institutions
Suite 416, John Sevier Building
Nashville, TN 37243-0705

____Yes! I would like to know more about becoming a financial examiner. Please send information to me at:

NAME:_____

MAILING ADDRESS:_____

CITY,STATE,ZIP:_____

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TO: Affirmative Action Officer
Tennessee Department of Financial Institutions
Suite 416, John Sevier Building
Nashville, TN 37243-0705

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